

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01  
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07  
CEA-01 AGRE-00 DOE-15 SOE-02 /120 W  
-----016014 040923Z /11

R 040756Z MAY 78  
FM AMEMBASSY MADRID  
TO SECSTATE WASHDC 4455  
INFO AMEMBASSY LISBON  
AMEMBASSY PARIS

UNCLAS SECTION 01 OF 04 MADRID 04806

USOECD

USOECD ALSO PASS TO KENT GOODSPEED, ECON COUNSELOR FROM  
MADRID

E.O. 11652: N/A  
TAGS: EFIN, ETRD, OECD, EALR, ECON, SP  
SUBJECT: KEY SPANISH ECONOMIC STATISTICS - NUMBER 16

1. THE FIRST QUARTER CLOSED WITH THE ECONOMY STILL FLAT  
AND LITTLE EXPECTATION OF SIGNIFICANT IMPROVEMENT OR  
GROWTH FOR THE REST OF 1978. THE VERY TIGHT SQUEEZE IN  
MONEY SUPPLY THAT DROVE OVERNIGHT FUNDS RATES UP TO OVER  
20 PERCENT IN LATE 1977 IS DEFINITELY OVER. MONEY IS  
AVAILABLE AGAIN IN MODEST QUANTITIES, (16.1 PERCENT  
MOVING AVERAGE GROWTH IN M3 IN DECEMBER-JANUARY-FEBRUARY)  
AND FAIRLY CHEAP. BUT THERE CONTINUES TO BE VERY LITTLE  
DEMAND FOR CREDIT FOR NEW INVESTMENT. UNEMPLOYMENT IS  
STILL INCHING UP AND A BATTLE IS NOW RAGING IN THE PRESS  
AND IN PARLIAMENT OVER A DRAFT LABOR LAW WHICH CONTEMPLATES  
GIVING TO WORKERS A CONSIDERABLE SAY IN MANAGEMENT DE-  
CISION MAKING. THE THREAT OF A SIGNIFICANT LOSS OF  
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MANAGERIAL AUTONOMY HAS NOT HELPED STILL SAGGING BUSINESS  
CONFIDENCE.

2. SO FAR THE GOVERNMENT IS STOUTLY STICKING TO ITS  
AUSTERITY PROGRAM ALTHOUGH THERE IS INCREASED TALK NOW OF  
ACCELERATING ALREADY BUDGETED BUT SLOW TO BE COMMITTED  
GOVERNMENT SPENDING PROGRAMS, PARTICULARLY FOR CAPITAL

INVESTMENT IN RAILROADS, CIVIL AVIATION, SHIPBUILDING AND HIGHWAY CONSTRUCTION. THIS LAG IN GOVERNMENT SPENDING, WHEN ADDED TO SIGNIFICANTLY INCREASED GOVERNMENT REVENUES FROM NEWLY ENFORCED INCOME TAX LAWS IS EXERTING CONSIDERABLE FISCAL DRAG ON THE ECONOMY.

3. THERE CONTINUES TO BE CONSIDERABLE IMPROVEMENT IN THE INFLATION RATE, WHICH IS NOW RUNNING AT AN APPROXIMATELY 12-14 PERCENT ANNUAL PACE -- ALTHOUGH RECENT PRICE INCREASES IN AGRICULTURE (APPROXIMATELY 19 PERCENT), OTHER CONSUMER PRODUCTS AND AUTOMOBILES (8.5 PERCENT) ARE EXPECTED TO BOOST THE RATE IN THE COMING MONTHS. SOME 800 FACTORIES AND STORES ARE NOW DISPLAYING "STABLE PRICES" STICKERS AS PART OF THE ANTI-INFLATION BATTLE.

4. THE DEFICIT ON CURRENT ACCOUNT CONTINUES TO IMPROVE. IN FACT, PRELIMINARY DATA SHOW SPAIN WITH A SURPLUS OF \$92 MILLION IN ITS CURRENT ACCOUNT FOR JANUARY. THIS COMPARES WITH A DEFICIT OF \$552 MILLION FOR JANUARY 1977. THE BANK OF SPAIN ITSELF EXPRESSED GREAT SURPRISE AT THIS COMPLETE REVERSAL. HOWEVER, WITH IMPORTS ALMOST CERTAIN TO INCREASE CONSIDERABLY AS SOON AS THE ECONOMY BEGINS TO GROW AGAIN; BUT AT LEAST FOR THE TIME BEING LARGE CURRENT ACCOUNT DEFICITS SHOULD NOT BE A SEVERE CONSTRAINT ON ECONOMIC POLICY. ALSO, AS PART OF THE EFFORT TO REDRESS SPAIN'S LONGSTANDING IMBALANCE IN THE TRADE ACCOUNT

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THE GOVERNMENT HAS APPROVED A \$1.5 BILLION EXPORT CREDIT PROGRAM. ADDED TO LAST JULY'S DEVALUATION, THIS SHOULD GIVE A MUCH NEEDED BOOST TO THE EXPORT SECTOR.

5. TOURISM IS DOING EXCEPTIONALLY WELL, UP 30 PERCENT IN NUMBERS IN THE FIRST QUARTER (43 PERCENT IN MARCH ALONE DUE TO HOLY WEEK) AND 20 PERCENT IN RECEIPTS COMPARED TO THE FIRST QUARTER OF 1977.

6. FOREIGN EXCHANGE RESERVES ARE ALSO UP AGAIN (PLUS \$87 MILLION TO \$6.782 BILLION) AND ARE NOW CLOSE TO SPAIN'S ALL TIME HIGH OF \$7 BILLION (YEAR END 1973). IN FACT THE GOVERNMENT NOW RECOGNIZES THAT RESERVES ARE HIGHER THAN NEEDED AND WE EXPECT THEM TO CUT BACK ON FOREIGN BORROWING SOMEWHAT OVER THE REST OF 1978, ALTHOUGH MASSIVE SUMS OF MONEY WILL BE NEEDED IN THE NEXT 5-10 YEARS IF THE GOVERNMENT'S LONG AWAITED ENERGY PLAN CALLS (AS IS EXPECTED) FOR HEAVY RELIANCE ON NUCLEAR POWER.

7. BECAUSE OF SLACK DEMAND FOR INVESTMENT CAPITAL AND THE BANK OF SPAIN'S RECENT EFFORTS TO EASE UP A BIT ON

THE MONEY SUPPLY, THE BANKS ARE AWASH WITH LIQUIDITY. AS THE TAX COLLECTION CAMPAIGN GETS MORE SERIOUS, AND BANK SECRECY LAWS ARE DONE AWAY WITH, CASH IN HAND BEING HELD OUTSIDE THE BANKING SYSTEM (DISINTERMEDIATION) HAS RISEN TO AN ALL TIME HIGH. THE GOVERNMENT IS THINKING OF TRYING TO SWITCH SOME PRIVATE AND PUBLIC ENTERPRISE FOREIGN BORROWING TO THE DOMESTIC MARKET TO REDUCE THE FOREIGN DEBT BURDEN AND SOAK UP SOME OF THIS EXTRA CAPITAL. ALSO, THE THIRD AND FINAL PACKAGE OF FISCAL REFORMS WHICH WAS APPROVED BY THE COUNCIL OF MINISTERS ON APRIL 14 AND

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 ICA-20 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 AGRE-00 DOE-15 SOE-02 /120 W

-----016033 040923Z /21

R 040756Z MAY 78

FM AMEMBASSY MADRID

TO SECSTATE WASHDC 4456

INFO AMEMBASSY LISBON

AMEMBASSY PARIS

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SUBMITTED TO PARLIAMENT CALLS FOR TAX INCENTIVES FOR INVESTMENT IN CAPITAL EQUIPMENT (10 PERCENT) AND SHARES TRADED ON THE STOCK MARKET (10 PERCENT).

8. A VALUE ADDED TAX IS INCLUDED IN THE NEW FISCAL PACKAGE AS SPAIN BEGINS TO ALIGN ITS REVENUE SYSTEM WITH THOSE OF ITS FUTURE PARTNERS IN THE EEC.

A. OUTPUT AND DEMAND

- 1) INDUSTRIAL PRODUCTION (1962100)

- INDEX

- 12/76: 380.7

- 12/77: 413.0

- UP 8.5 PERCENT IN 1977
- INDEX (TREND)
- 12/76: 380.9
- 6/77: 392.7

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- 11/77: 407.4
- 2) INVESTMENT IN PLANT AND EQUIPMENT
- INDEX (TREND) (1962100)
- 12/76: 307.1
- 12/77: 304.8
- DOWN .01 PERCENT IN 1977
- 3) DEPARTMENT STORE SALES
- INDEX (TREND) (1963100)
- 12/76: 1,420.2
- 12/77: 1,754.9
- UP 23.5 PERCENT IN 1977
- 1/78: 1,816.9
- 4) STEEL PRODUCTION (1,000 METRIC TONS)
- 12/76: 930.5
- 12/77: 972.9
- UP 4.5 PERCENT IN 1977
- 5) DOMESTIC CEMENT CONSUMPTION (1,000 METRIC TONS)
- 12/76: 2,036
- 11/77: 2,492
- 6) DOMESTIC ELECTRICITY DEMAND (MILLION KWH)
- 12/76: 8,036
- 12/77: 8,427.1
- UP 4.9 PERCENT IN 1977
- 1/78: 8,896
- 2/78: 8,045
- 7) MADRID STOCK MARKET INDEX (DEC 31, 1977100)
- (WITH DEC. 31, 1976100, DEC 31, 1977 WOULD BE
- EQUAL TO 67.9)
- MARCH 28, 1978 100.64
- (AFTER A LONG STEADY DECLINE THE STOCK MARKET
- SURGED AHEAD DURING THE LAST TWO WEEKS TO REGAIN
- SOME LOST GROUND. BUT IT IS STILL TOO WEAK TO
- BE AN ATTRACTIVE OPTION FOR BUSINESS EXPANSION

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- THROUGH EQUITY PARTICIPATION. THE GOVERNMENT HAS
- SUBMITTED TO PARLIAMENT A PLAN FOR A 10 PERCENT
- TAX CREDIT FOR FUNDS INVESTED IN THE STOCK
- MARKET.)
- 8) GDP DATA:

- THE BANK OF SPAIN IS NOW ESTIMATING GDP GROWTH IN
- 1978 AT ONE PERCENT. DISCUSSION AMONG VARIOUS
- ECONOMIC COMMENTATORS AND STUDY DEPARTMENTS OF
- BANKS SHOWS CONSIDERABLE SUPPORT FOR A 0 TO .5
- PERCENT RANGE.

B. PRICE INDEXES

- 1) CPI (JUNE 1976=100)
- 12/76: 107.9
- 12/77: 136.4
- UP 26.4 PERCENT IN 1977
- 1/78: 138.4
- 
- 1/78 1.5 PERCENT
- 2/78 0.8 PERCENT
- 3/78 APPROXIMATELY 1 PERCENT (EXACT FIGURE
- NOT YET AVAILABLE DUE TO A STRIKE AT
- THE STATISTICAL INSTITUTE)
- 2) WPI (1955=100)
- 12/76: 416.3
- 12/77: 489.5
- UP 17.6 PERCENT DURING 1977

C. MONEY

- 1) M1 (END OF MONTH, NOT SEASONALLY ADJUSTED)
- (BILLIONS OF PESETAS)
- 12/76: 2,384.7
- 12/77: 2,848.0
- 2) M3 (END OF MONTH, NOT SEASONALLY ADJUSTED)

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 ICA-20 AID-05 EB-08 NSC-05  
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06  
LAB-04 SIL-01 AGRE-00 DOE-15 SOE-02 /120 W  
-----016081 040923Z /21

R 040756Z MAY 78  
FM AMEMBASSY MADRID  
TO SECSTATE WASHDC 4457  
INFO AMEMBASSY LISBON  
AMEMBASSY PARIS

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- (BILLIONS OF PESETAS)
- 12/76: 6,266.7
- 12/77: 7,437.7
- 3) REPRESENTATIVE SHORT TERM INTEREST RATES (PERCENT)
- 12/76: 8.0
- 12/77: 6.2
- 1/78: 8.75 (30 DAY FUNDS RATE) (END OF APRIL)
- OVERNIGHT FUNDS IN THE INTERBANK MARKET WERE AT
- 6 PERCENT AT THE END OF APRIL
- 4) REPRESENTATIVE LONG TERM INTEREST RATE (PERCENT)
- 14 PERCENT SINCE 1974, ALTHOUGH RATES OVER ONE YEAR
- ARE NOW FOR ALL PRACTICAL PURPOSES FREE OF ANY
- GOVERNMENT RESTRAINT.

D. CENTRAL GOVERNMENT FISCAL RESULTS (NARROWLY DEFINED  
FOR 1-3 BELOW) (BILLIONS OF PESETAS)

- 1) DEFICIT (-) OR SURPLUS
- 1976: 13.9

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- 1977: 88.0 (LAST QUARTER STILL PROVISIONAL)
- 1/78: -2.8
- 2) EXPENDITURES
- 1976: 910.2
- 1977: 1,131.1 (LAST QUARTER STILL PROVISIONAL)
- 1/78: 75.9
- 3) REVENUES
- 1976: 924.1
- 1977: 1,163.7 (LAST QUARTER STILL PROVISIONAL)
- 1/78: 73.1
- 4) NET GOVERNMENT FINANCE
- TOTAL 1976: 96.0
- TOTAL 1977: 297.2 (LAST QUARTER STILL PROVISIONAL)
- AT \$1 81.65 \$3.6 BILLION
- 1/78: -1.3

E. LABOR

- 1) TOTAL WORKERS (MILLIONS)
- 4TH QUARTER 1976: 13.2
- 4TH QUARTER 1977: 13.3
- NO NEW DATA
- 2) UNEMPLOYMENT PERCENTAGE
- 4TH QUARTER 1976: 5.3 OFFICIAL FIGURE
- 4TH QUARTER 1977: 6.3 OFFICIAL FIGURE
- SOME LABOR SOURCES ESTIMATE CURRENT UNEMPLOYMENT
- TO BE OVER ONE MILLION, WHICH WOULD BE APPROXIMATELY
- 7.5 PERCENT.
- 3) EMIGRATION

- NO NEW DATA
- 4) HOURLY WAGE INDEX (TREND) (1967100)
- 12/76: 480.6
- 1/77: 482.4
- 2/77: 488.7
- 3/77: 495.1

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- 4/77: 502.1
- 5/77: 507.2
- 6/77: 510.1
- 7/77: 522.1
- 8/77: 537.7
- 9/77: 550.8
- 10/77: 563.9

F. TRADE AND PAYMENTS

- 1) EXPORT VALUE (FOB) (MILLIONS OF DOLLARS)
- 3/78: \$1,003.5 (\$1 EQUALS 79.90 PESETAS)
- 2) IMPORT VALUE (CIF) (MILLIONS OF DOLLARS)
- 3/78: \$1,292.6 (\$1 EQUALS 79.90 PESETAS)
- 3) EXPORT VOLUME (MILLION METRIC TONS)
- 3/78: 2.6
- IMPORT VOLUME (MILLION METRIC TONS)
- 3/78: 4.9
- 4) BOP CURRENT ACCOUNT (BEFORE ADDITIONS OF STANDARD
- RATIO ADJUSTMENTS) (MILLIONS OF DOLLARS)
- CURRENT ACCOUNT DEFICIT (-) OR SURPLUS
- 1/78 1/77
- TRADE -222.0 -701.8
- SERVICES 180.3 125.5
- TRANSFERS 133.9 24.4
- TOTAL PLUS 92.2 -551.9

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-----016113 040924Z /21

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- 5) FOREIGN EXCHANGE RESERVES (NET OF OBLIGATIONS;  
- EXCLUDING NON-CONVERTIBLE CURRENCY) (MILLIONS OF  
- DOLLARS)
    - 12/76: 4,890.6
    - 12/77: 6,141.5
    - 2/78: 6,694.8
    - 3/78: 6,782.5
  - RECORD LEVEL OF FOREIGN EXCHANGE RESERVES WAS  
- 6,799.5 IN DECEMBER 1973.
  - 6) FOREIGN DEBT (BILLIONS OF DOLLARS)
    - TREASURY EXPECTS FOREIGN DEBT TO GROW TO \$15 BILLION  
- BY THE END OF 1978. KINGDOM OF SPAIN HAD PLANNED  
- TO BORROW \$1 BILLION IN 1978, BUT DUE TO UNEX-  
- PECTEDLY HIGH, AND STILL GROWING, FOREIGN EXCHANGE  
- RESERVES WILL PROBABLY REVISE BORROWING FIGURE  
- DOWN TO \$700 MILLION FOR 1978. PERMISSION FOR  
- PUBLIC ENTERPRISE AND PRIVATE FOREIGN BORROWING
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- WILL BE TIGHTENED UP WITH AIM OF UTILIZING EXCESS  
- LIQUIDITY IN DOMESTIC MARKET.
- 7) MADRID DOLLAR EXCHANGE RATE
  - (AVERAGE OF OFFICIAL BUYING AND SELLING RATES)
  - APRIL 28, 1978 (\$1 EQUALS 80.84 PESETAS) STABLER

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC DATA  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 04 may 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 jan 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978MADRID04806  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780190-0249  
**Format:** TEL  
**From:** MADRID USOECD  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t19780594/aaaadbwh.tel  
**Line Count:** 428  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
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**Message ID:** e9e798a4-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 8  
**Previous Channel Indicators:** n/a  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 29 mar 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** N/A  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2794527  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** KEY SPANISH ECONOMIC STATISTICS - NUMBER 16  
**TAGS:** EFIN, ETRD, EALR, ECON, SP, OECD  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/e9e798a4-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014